

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-022  
FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA  
  
INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS  
  
FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

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AUDIT STAFF

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Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#09-022

24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Loretta Toedo, President  
Board of Directors  
24-A DAA, The Kings Fair  
801 South 10th Avenue  
Hanford, California 93230

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 24-A District Agricultural Association (DAA), Kings Fair, Hanford, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 24-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

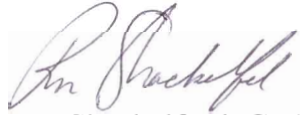
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 24-A DAA, Kings Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 24-A DAA, Kings Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-022, on the 24-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 24-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA  
Chief, Audit Office

November 6, 2009

**24-A DISTRICT AGRICULTURAL ASSOCIATION  
THE KINGS FAIR  
HANFORD, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION  
December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>			
Cash & Cash Equivalents	111 - 121	\$ 237,233	\$ 156,177
Accounts Receivable,	131	40,761	20,912
Deferred Charges	143	3,568	3,142
Land	191	45,707	45,707
Buildings and Improvements, Net	192	973,716	1,016,721
Equipment, Net	193	14,585	6,066
<b>TOTAL ASSETS</b>		<b><u>1,315,571</u></b>	<b><u>1,248,726</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable	212	19,859	15,702
Taxes Payable	221 - 226	357	404
Deferred Income	228	4,500	665
Guaranteed Deposits	241	5,600	6,200
Compensated Absences Liability	245	25,317	21,135
<b>Total Liabilities</b>		<b><u>55,634</u></b>	<b><u>44,107</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	12,860	10,747
Net Resources - Operations	291	213,069	125,377
Net Resources - Capital Assets less Related Debt	291.1	1,034,008	1,068,495
<b>Total Net Resources Available</b>		<b><u>1,259,937</u></b>	<b><u>1,204,619</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 1,315,571</u></b>	<b><u>\$ 1,248,726</u></b>

**24-A DISTRICT AGRICULTURAL ASSOCIATION  
THE KINGS FAIR  
HANFORD, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Years Ended December 31, 2008 and 2007

	<b>Account Number</b>	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>			
State Apportionments	312	\$ 150,000	\$ 150,000
Donated Assets	317	54,715	308,050
Other Funds	340	-	2,000
Admissions	410	129,876	132,226
Commercial Space	415	30,450	36,975
Carnival	421	89,460	91,600
Food Concessions	422	38,857	37,174
Exhibits	430	18,295	18,277
Attractions - Fairtime	460	3,574	13,455
Miscellaneous Fair	470	-	86,115
Miscellaneous Non-Fair	471	98,581	9,710
JLA - Revenue	476	26,706	18,098
Interim Revenue	480	183,125	186,609
Prior Year Adjustment	490	1,578	443
<b>Total Revenue</b>		<b>825,216</b>	<b>1,090,732</b>
<b>EXPENSES</b>			
Administration	500	154,854	177,494
Maintenance and Operations	520	257,840	246,399
Publicity	540	43,544	43,036
Attendance	560	34,337	32,580
Miscellaneous Fair & Non-Fair	570	30,671	30,833
JLA - Expense	576	24,593	19,306
Premiums	580	5,682	5,936
Exhibits	630	22,654	26,995
Attractions - Fairtime	660	102,881	105,514
Prior Year Adjustments	800	19,437	45,272
Cash Over/Short from Ticket Sales	850	126	(73)
Depreciation	900	51,156	78,572
Other Operating Expense	930	22,123	18,467
<b>Total Expenses</b>		<b>769,898</b>	<b>830,330</b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		55,318	260,403
Resources Available, January 1		1,204,619	944,216
<b>Resources Available, December 31</b>		<b>\$ 1,259,937</b>	<b>\$ 1,204,619</b>

**24-A DISTRICT AGRICULTURAL ASSOCIATION  
THE KINGS FAIR  
HANFORD, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenues Over Expenses (Expenses Over Revenue)	\$ 55,318	\$ 260,403
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(19,849)	(15,878)
(Increase) Decrease in Deferred Charges	(427)	(938)
Increase (Decrease) in Deferred Income	3,835	(1,400)
Increase (Decrease) in Taxes Payable	(47)	100
Increase (Decrease) in Accounts Payable	4,158	(19,366)
Increase (Decrease) in Compensated Absence Liability	4,182	(1,573)
Increase (Decrease) in Guaranteed Deposits	(600)	(400)
Total Adjustments	<u>(8,748)</u>	<u>(39,455)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>46,570</b></u>	<u><b>220,948</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Buildings and Improvements	43,005	(148,363)
(Increase) Decrease in Equipment	<u>(8,518)</u>	<u>5,739</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>34,486</b></u>	<u><b>(142,624)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>81,056</b>	<b>78,324</b>
Cash at Beginning of Year	156,177	77,854
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 237,233</b></u></u>	<u><u><b>\$ 156,177</b></u></u>



**24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2008 and 2007

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 24-A District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Kings Fair each year in Hanford, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

## NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

**NOTE 3      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash & Change Fund	\$ 600	\$ 940
Cash in Bank - Operating	225,666	145,359
Cash in Bank - Auction	10,967	9,738
Cash in Bank - Premium	-	140
Total Cash and Cash Equivalents	<u>\$ 237,233</u>	<u>\$ 156,177</u>

**NOTE 4      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 72,115	\$ 50,589
Account Receivable - JLA	2,392	1,508
Allowance for Doubtful Accounts	<u>(33,746)</u>	<u>(31,185)</u>
Accounts Receivable - Net	<u>\$ 40,761</u>	<u>\$ 20,912</u>

**NOTE 5      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 1,983,901	\$1,989,027
Less: Accumulated Depreciation	<u>(1,010,185)</u>	<u>(972,306)</u>
Building & Improvements - Net	<u>\$ 973,716</u>	<u>\$1,016,721</u>
Equipment	\$ 287,261	\$ 271,848
Less: Accumulated Depreciation	<u>(272,676)</u>	<u>(265,782)</u>
Equipment - Net	<u>\$ 14,585</u>	<u>\$ 6,066</u>

**NOTE 6      RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The

DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 24-A DAA Board of Directors
1	Chief Executive Officer, 24-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA

MANAGEMENT REPORT #09-022

YEAR ENDED DECEMBER 31, 2008



24-A DISTRICT AGRICULTURAL ASSOCIATION  
KINGS FAIR  
HANFORD, CALIFORNIA  
  
MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2008

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AUDIT STAFF

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Shakil Anwar, CPA  
Pamela Vallergera, CPA

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER  
#09-022

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Dave Lafferty, President  
Board of Directors  
24-A DAA, The Kings Fair  
801 South 10th Avenue  
Hanford, California 93230

In planning and performing our audit of the financial statements of the 24-A District Agricultural Association (DAA), Kings Fair, Hanford, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Kings Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 24-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 24-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 24-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 24-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 24-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 24-A DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: property accounting, delegated purchase authority, and sponsorship procedures. We have provided six recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 24-A DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### PROPERTY ACCOUNTING

A review of the Fair's property accounting revealed the following:

- a. The Fair recorded \$11,400 for non-capital items in Account #192, Buildings and Improvements. These items are a \$3,000 ansul system, included as part of raceway improvements, and \$8,400 in Floriculture Building coolers that represent the total cost for four coolers. The Department of Finance asset capitalization criteria are: (i) a useful life greater than one year, and (ii) a historical cost greater than \$5,000. The coolers have a unit cost of \$2,100 and, therefore, do not meet the capitalization criteria. Items that do not meet the capitalization criteria should be expensed in the year of acquisition rather than capitalized and depreciated. This was a prior year audit finding.
- b. The Fair misclassified a copier under Account #192, Buildings and Improvements, when the item is more appropriately classified as Account #193, Equipment. Per the Division of Fairs and Expositions (F&E) Fixed Asset Manual, the copier should have been depreciated over a five-year useful life, the standard depreciation useful life for equipment, rather than over thirty years, the standard depreciation useful life for buildings and improvements.
- c. The Fair has not performed an inventory within the last three years. The last inventory of record was 2004. The State Administrative Manual (SAM) Section 8652 states, "Departments will make a physical count of all property and reconcile the count with the accounting records at least once every three years." This is a prior year finding.

### *Recommendations*

1. *The Fair should comply with the Department of Finance capitalization criteria by only capitalizing assets with a historical cost of greater than \$5,000 per unit and a useful life greater than one year. The items that do not meet the capitalization criteria should be removed from Account #192, Buildings and Improvements, and recorded as a prior year expense.*
2. *The Fair should reclassify the copier to Account #193, Equipment, and adjust the depreciation of the asset accordingly.*
3. *The Fair should comply with SAM Section 8652 by developing a schedule that will ensure all property will be inventoried at least once every three years.*

### DELEGATED PURCHASE AUTHORITY

The Fair did not prepare Standard 65 Purchase Orders for all purchases greater than \$100. The Department of General Services (DGS) purchasing guidelines require Standard 65 Purchase Orders to be prepared for all amounts greater than \$100. The Fair claims that its purchases fall under the category of "Opportunity Purchases," but neither the internal

purchase orders prepared by the Fair nor the Fair's purchase order log indicated "Opportunity Purchase" as required. The Fair did not maintain adequate support to demonstrate that the purchases were acquired at a cost that was equal to or less than that of items purchased through the state purchasing program. Section 10321 of the Public Contract Code (PCC) states "that local businesses often provide opportunity purchases to local fairs that, for similar things available through the State purchasing program, may be purchased locally at a price equivalent to or less than that available through the State purchasing program." Therefore, to claim an opportunity purchase, the Fair must separately identify these opportunity purchases and demonstrate that the price obtained is equivalent or less than that available through the State.

#### *Recommendations*

4. *The Fair should comply with DGS purchasing guidelines by preparing Standard 65 Purchase Orders for all purchases that exceed \$100.*
5. *The Fair should mark "Opportunity Purchase" on both the purchase order and purchase order log to indicate this classification of the purchase. Additionally, the Fair should comply with PCC by ensuring it demonstrates through adequate supporting documentation that the purchases are acquired at a cost equivalent to or less than that available through State purchasing.*

### **SPONSORSHIP PROCEDURES**

During 2008, the Fair did not have Board approved sponsorship procedures in place as required by Food and Agriculture Code Section 4051.1. Per the Food and Agriculture Code, the Board establishes procedures for entering "into agreements to secure donations, memberships, and corporate and individual sponsorships...." The Board must also establish procedures should the Fair contemplate entering into an agreement with an individual or forming an entity for the purpose of developing or soliciting such contracts including, but not limited to, sponsorship agreements.

#### *Recommendation*

6. *The Fair should comply with Food and Agriculture Code Section 4051.1 by having its Board develop specific procedures for the solicitation and acquisition of sponsorships.*

## NON-REPORTABLE CONDITIONS

### ACCOUNTS RECEIVABLE

The Fair has \$3,205 in outstanding receivables dating from 2001 through 2007 for which it should increase the Allowance for Doubtful Accounts. Per the F&E Accounting Procedures Manual (APM) Section I, 2.41, uncollectible amounts should be recorded to Allowance for Doubtful Accounts. This process represents the Fair's assets more accurately. Additionally, for those accounts that the Fair has exhausted all collections efforts, the Fair should request a discharge of accountability from its Board for amounts up to \$500 and should submit a Std. 27, Discharge from Accountability Form, for amounts greater than \$500 to F&E for discharge approval.

#### *Recommendation*

*The Fair should review all open receivables and should increase the Allowance for Doubtful Accounts for amounts where collectibility is in question. For accounts that collection efforts have been exhausted, the Fair should obtain Board discharge or F&E approval for discharge, depending on the amount of the uncollectible receivable.*

### PAYROLL ACCOUNTING FOR TEMPORARY EMPLOYEES

The Fair allowed two employees to work in excess of the 119-day limitation. These two employees worked 147 and 122 days during 2008, which could result in the employees not being exempt from civil service. According to the Constitution of the State of California, Article VII, Section 4(l), officers and employees of district agricultural associations employed less than six months in a calendar year are exempt from civil service. Temporary employees are not covered by civil service laws; therefore, temporary employees working six months or more in a calendar year may not be exempt from civil service law. Six months equates to 120 days considering a five-day work week regardless of the number of hours worked in a day. Furthermore, the APM Section III, 4.34 states that temporary employees may not work more than 119 days in a calendar year, based on the constitutional guidelines.

#### *Recommendation*

*The Fair should comply with the APM by working temporary employees a maximum of 119 days in a calendar year.*

### STANDARD AGREEMENTS

During 2008, the Fair did not prepare a standard agreement for the services of its stage manager. The individual received payment and an IRS Form 1099 for services rendered in the amount of \$2,000. APM Section III, 1.3 requires that Standard Agreements be created for all individuals performing services for the Fair. Also, the Fair did not submit the DE-542, Report of Independent Contractors, to the Employment Development Department

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(EDD). Per EDD regulations, the form is required to be submitted within twenty days of contracting with an individual for an amount of \$600 or more.

*Recommendations*

*The Fair should ensure it is developing Standard Agreements for all individuals who perform services for the Fair. Also, the Fair should comply with EDD regulations and submit Form DE-542, Report of Independent Contractors, whenever it contracts with an individual for an amount of \$600 or more in a calendar year. The form should be submitted to EDD within twenty day of contracting for the services.*



**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



February 11, 2010

AUDIT RESPONSE  
24-A DAA – Kings Fair

Property Accounting:

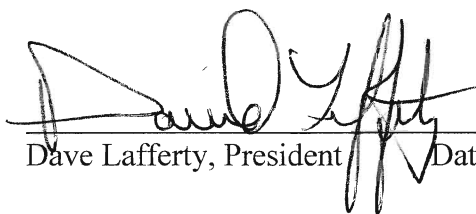
The journal entries have been established for the 2009 yr.

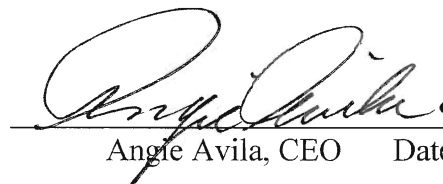
Delegated Purchase:

The fair is located in a small community. We have opportunity purchasing. We are stamping our Po's and the log is also showing opportunity purchasing.

Sponsorship Procedures:

We will establish sponsorship procedures for the manager at the March meeting.

 2-12-10  
Dave Lafferty, President Date

 2/12/10  
Angie Avila, CEO Date

### **CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 24-A DAA, The Kings Fair, for its review and response. We have reviewed the response and would like to reemphasize the following areas:

Property Accounting – The Fair has not performed an inventory of its property since 2004. The Fair should develop a schedule to ensure all property is physically inventoried at least once every three years, in accordance with SAM Section 8652.

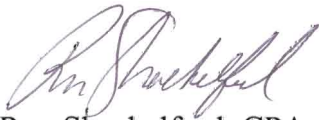
Delegated Purchase Authority – The Fair should ensure it is maintaining adequate information to support that prices obtained for opportunity purchases from local vendors are equivalent or less than that available through the State, as required by PCC Section 10321.

Except for the areas noted above, we find that the response sufficiently addresses the findings contained in the report.

**DISPOSITION OF AUDIT RESULTS**

The findings in this management report are based on fieldwork that my staff performed between November 16, 2009 and November 25, 2009. My staff met with management on November 25, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

November 25, 2009

**REPORT DISTRIBUTION**

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1	Chief Executive Officer, 24-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office